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ABSTRACT

This learning activity package (LAP) on the insurance industry and the methods used to give protection to the insured is designed for student self-study. Following a list of learning objectives, the LAP contains a pretest (answer key provided at the back). Six learning activities follow. The learning activities cover the following material: terms used in the insurance industry, concept of risk sharing, automobile insurance, homeowner's insurance, life insurance, and health and accident insurance. Each learning activity includes a learning objective, information sheets, and a self-test with answers. A posttest with answer key completes the LAP. (KC)

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UNDERSTANDING INSURANCE

Learning Activity Package

A GUIDE FOR INDUSTRIAL COOPERATIVE TRAINING PROGRAMS

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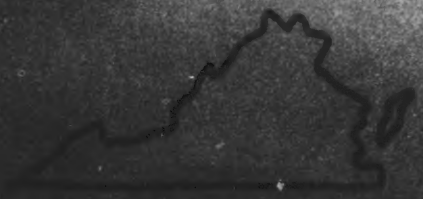

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LEARNING ACTIVITY PACKAGE NO. 15

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UNDERSTANDING INSURANCE

Learning Activity Package

For use with
Industrial Cooperative Training Programs

Virginia Polytechnic Institute and State University
Division of Vocational and Technical Education
Blacksburg, Virginia 24061

This Learning Activity Package has been proposed for distribution to teacher-coordinators of Industrial Cooperative Training who may choose to duplicate the materials for students.

1986

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INTRODUCTION

Many years ago the local community took the responsibility for caring for the less fortunate. Today insurance protection plays a large role in maintaining financial independence for this group of people. The insurance industry serves the function of providing financial protection in the event of death, illness, disaster or other financial burden. With proper insurance coverage you and your family can achieve the financial independence needed to keep from ever becoming a burden on others.

The insurance industry is based upon the concept of "risk sharing" or pooling together of the finances of a large group of people. This pool of money is used to provide financial assistance to those group members who have suffered an insured loss.

In this Learning Activity Package (LAP) we will study the operation of the insurance industry and the methods used to afford protection to the insured. You will become a better informed insurance consumer as a result of the understanding gained from this LAP.

INTRODUCTION

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NOTES TO STUDENTS

This self contained Learning Activitv Package (LAP) contains several activities to aid you in understanding the insurance industry. Begin by taking the pretest in order to determine how much you already know.

Study the information provided before beginning the activities at the end of each section. Do not skip from one section to another. At the end of this LAP you will be given a posttest to determine how much you have learned.

OBJECTIVES

When you have completed this LAP you will demonstrate your knowledge of the insurance industry by successfully meeting these objectives with 90 percent accuracy.

A. You will be able to define 35 terms used in the insurance industry.

B. You will be able to demonstrate your knowledge of risk sharing by listing and explaining 12 risks which you take, and ways of avoiding or reducing the seriousness of each risk.

C. You will be able to demonstrate your knowledge of automobile insurance by listing and explaining 6 types of automobile insurance.

D. You will be able to demonstrate your understanding of homeowners insurance by:

   1. Defining property and liability insurance.
   2. Computing adequate coverage for a home, based upon appraised value.
   3. Naming and defining three types of liability insurance.

Objectives (Continued)

E. You will be able to demonstrate your understanding of life insurance by:

1. Explaining the purpose of life insurance.
2. Listing and explaining the difference between four types of life insurance.

F. You will be able to demonstrate your knowledge of health and accident insurance by:

1. Explaining the purpose of health and accident insurance.
2. Listing and explaining the difference between four basic types of health and accident insurance.

PRETEST

A. Match the terms from the right hand column with their definitions in the left hand column. Place the identifying letters in the blanks at the left. Use each letter only once.

_____ 1.	A sales and service representative for an insurance company	A. Risks
_____ 2.	A period of time following the premium due date during which an overdue premium may be paid without penalty	B. Loan value
_____ 3.	A formal notice to an insurance company requesting payment of an amount due under the terms of the policy.	C. Insured
_____ 4.	A legal contract between the insured and the insurance company	D. Liability
_____ 5.	A regular installment of money paid to an insurance company for insurance coverage	E. Premium
_____ 6.	Happenings which may present the possibility of financial loss	F. Insurable interest
_____ 7.	The amount of money which a person can borrow against an insurance policy	G. Policy
_____ 8.	An individual protected by an insurance policy	H. Agent
_____ 9.	Property and/or liability insurance which protects a person from financial loss due to property damage or destruction	I. Grace period
_____10.	Coverage provided by an insurance company under the terms of the policy	J. Claim

B. Circle the best response to each statement.

11. An unforeseen event which might cause a person to suffer a monetary loss is called

A. Cost sharing
B. Economic loss
C. Economic risk
D. Insurance

12. Protection against some economic losses are shared through government programs. These are usually financed through

A. Voluntary assessments
B. Taxes
C. Insurance programs
D. Contributions

13. Risk sharing through the purchase of insurance is

A. Dependent on increasing costs
B. Government sponsored
C. Required by law (other than auto)
D. Voluntary action

14. Insurance companies operate under the principle that losses among groups

A. Are uncertain
B. Are already known
C. Should be shared by a group as a whole
D. Cannot be determined

15. The basic reason for insurance is that the losses for any individual

A. Are certain but unknown
B. Cannot be determined
C. Are known but uncertain
D. Can be eliminated

16. A premium in insurance is

A. The amount paid for protection
B. A reward for buying protection
C. A part of tax assessment
D. A dividend paid to the policy holder

17. Protection against loss of income is called

A. Casualty insurance
B. Liability insurance
C. Personal insurance
D. Property insurance

18. Personal life and health insurance helps families by

A. Offsetting financial losses
B. Providing additional security
C. Contributing toward peace of mind
D. All of the above

19. The beneficiary named in a life insurance policy is the person

A. Whose life is covered by the policy
B. To whom policy payments are made
C. Who pays the premium
D. Who applies for protection

20. The greatest protection against large losses due to illness is obtained through insurance covering

A. Major medical expenses
B. Hospital expenses
C. Surgical expenses
D. Office all medical expenses

21. Life insurance includes protection against

A. Loss of income due to illness
B. Expenses resulting from hospital confinement
C. Loss of income due to the death of the breadwinner
D. Physician's and surgical fees

22. Insurance companies who make loans against policies will charge

A. No interest
B. High interest
C. Relatively low interest
D. Compound interest

23. Health insurance provides families with financial assistance during periods of

A. Hospitalization
B. Disabling injuries
C. Serious illness
D. All of the above

24. Insurance which pays a salary if an injury prevents an employee from working is called

A. Disability income insurance
B. Major medical insurance
C. Surgical expense insurance
D. Regular medical insurance

25. Health insurance which reimburses the insured for physician's operating charges is called

A. Disability income insurance
B. Loss of income insurance
C. Surgical expense insurance
D. Regular medical insurance

26. A life insurance policy may contain the provision that premiums need not be paid if the insured is physically disabled for a period of at-least six months. This provision is called a (an)

A. Special benefit
B. Extended coverage
C. Waiver of premium
D. Secondary benefit

27. Some life insurance policies pay twice the basic amount purchased if the insured is killed in an accident. This feature is called

A. Dividend payment
B. Double indemnity
C. Co-insurance
D. Automatic coverage

28. Life insurance premiums cost the most when they are paid

A. Annually
B. Semi-annually
C. Quarterly
D. Monthly

29. When a life insurance policy earns dividends, the policy holder may choose to

A. Receive them as cash payments each year
B. Use them to reduce the amount of the premium payments
C. Let them accumulate and earn interest
D. Select any of the above choices

30. The manner of paying life insurance to the beneficiary is known as

A. Continuing payments
B. Dividend payments
C. Settlement options
D. Proceeds

31. A person who stops paying premiums on a life insurance policy (other than term) may choose to

A. Accept the cash value of the policy
B. Let the policy stay in force for its full amount for a period of time
C. Accept a policy for a reduced amount paid for life
D. Select any of the above choices

32. A program of personal insurance should be

A. Replanned periodically
B. Made by you alone
C. Planned early and never changed
D. Changed every year

33. The best agent for you is one who

A. Is well prepared
B. Explains how policies meet your needs
C. Is pleasant to work with
D. All of the above

C. Match the types of life insurance from the right hand column with the descriptive statements in the left hand column. Place the identifying letters in the blanks at the left.

_____ 34.	Costs less than the other three types.	A. Term
_____ 35.	Has a cash value at maturity equal to the amount of insurance purchased.	B. Straight life
_____ 36.	Is the most flexible.	C. Limited payment
_____ 37.	Premiums are payable as long as the insured lives.	D. Endowment
_____ 38.	Savings values increase most rapidly.	

Pretest (Continued)

_____ 39. Premiums are paid for a stated number of years, after which the policy is paid up for life.

_____ 40. Has no cash values.

_____ 41. The cheapest form of permanent insurance.

_____ 42. Is considered temporary insurance.

A. Term

B. Straight life

C. Limited payment

D. Endowment

D. Circle the T if the statement is True, F if it is False.

T F 43. The amount wage earners should spend for insurance protection is 10 percent of income.

T F 44. It is wise for the typical family to buy as much insurance as it can afford.

T F 45. The head of a family should buy all types of insurance which are available.

T F 46. Economic risks should be studied carefully before purchasing the proper form of insurance protection.

T F 47. Most persons should buy straight life insurance because it is the cheapest form of permanent protection.

T F 48. Young married persons should buy limited payment life insurance in order to keep from paying premiums during their retirement years

T F 49. Homes are exposed to the danger of fire more than to the danger of floods.

T F 50. A homeowners policy provides both property and liability insurance.

T F 51. The cost of home insurance is a relatively large item in the family budget.

T F 52. The chief difference between the standard and broad form of a homeowners policy is in the number of perils which are covered.

T F 53. The comprehensive form of a homeowners policy lists the perils which are covered for your property.

Pretest (Continued)

T F 54. While burning leaves in your backyard you accidentally set fire to your garage. Your insurance company will pay for damage even though you were directly responsible for the fire.

T F 55. While visiting your neighbor you accidentally upset a small glass-top table, breaking it into several pieces. If you have a homeowners policy, the insurance company will pay your neighbor for the damage which you did.

T F 56. A friend stops by to visit you and injures his knee in a fall on your property. Several days later you learn that his knee is infected. Your insurance company will pay your friend's medical bill even though he was responsible for his own injury.

T F 57. All youthful drivers pay about the same amount of premiums for their automobile insurance.

T F 58. State no-fault laws eliminate the right to sue for injuries incurred in auto accidents.

T F 59. If, as a pedestrian, you are injured by a hit-and-run driver, your uninsured motorist coverage applies and your insurance company will pay for your injury.

T F 60. No-fault laws are a revision of, not a replacement of, the present automobile insurance system in the United States.

T F 61. Bodily injury liability applies to guests riding in your car.

T F 62. If you carry collision insurance and your car collides with another vehicle, your insurance company will pay for damages to your car even if you were at fault.

T F 63. Financial responsibility laws make automobile insurance compulsory.

T F 64. Massachusetts was the first state to pass a no-fault automobile insurance law.

T F 65. Damage to your car as a result of rolling over would be covered by property liability insurance.

T F 66. Repair of a frozen radiator would be covered by comprehensive automobile insurance.

LEARNING ACTIVITY A

TERMS USED IN THE INSURANCE INDUSTRY

Objective: You will be able to define 35 terms used in the insurance industry.

Introduction: Following is a list of several common terms used in the insurance industry. It is necessary to study and understand the meaning and use of these terms before proceeding through the other learning activities in this LAP.

1. Agent: A sales and service representative for an insurance company.
2. Automobile Insurance: Form of insurance which provides financial protection to the automobile operator and/or owner, from loss caused by the operation of the automobile.
3. Benefit: A payment of funds to the insured for losses which are covered by the provisions of the policy.
4. Beneficiary: A person named in a policy who will receive the insurance proceeds upon the death of the insured.

Terms Used In The Insurance Industry (Continued)

5. Boat-Owners Insurance: An insurance policy which provides protection for losses which may be incurred while towing, launching, operating or retrieving a boat.
6. Cash Value: The amount of money which will be paid to the owner of a whole life or endowment policy if the insurance is given up.
7. Claim: A formal notice to an insurance company requesting payment of an amount due under the terms of the policy.
8. Deductible: The amount of money which must be paid by the policy owner for a loss before the provisions of the policy take effect.
9. Disability Income Insurance: A form of insurance which pays injured or ill persons for all or part of their wages when they are unable to work.
10. Effective Coverage Date: The date and hour upon which a policy goes into effect.
11. Endowment: A life insurance policy which provides insurance protection and an insured savings plan for a set number of years.
12. Face Value: The amount which will be paid in case of death or at maturity.
13. Grace Period: A period of time, following the premium due date during which an overdue premium may be paid without penalty.

Terms Used In The Insurance Industry (Continued)

14. Homeowners Insurance: A broad form of insurance which covers most of the risks involved in home ownership.

15. Hospital Expense Insurance: A form of health insurance which pays stipulated costs of a hospitalization.

16. Insured: An individual protected by an insurance policy.

17. Insurability: Acceptability of an applicant for insurance.

18. Insurable Interest: Property and/or liability insurance, which protects a person from financial loss due to property damage or destruction.

19. Lapsed Policy: A policy terminated for nonpayment of premiums.

20. Liability: Coverage provided by an insurance company under the terms of a policy.

21. Liability Insurance: A policy which insures individuals and/or property protection in case of owner liability.

22. Limited-payment Life: Type of policy which offers protection for life but the premiums are paid only for a set number of years.

23. Loan Value: The amount of money which a person can borrow against an insurance policy.

24. Major Medical Expense Insurance: A form of health insurance which pays major medical expenses incurred to include serious and prolonged illness.

25. Maturity: The age at which the face value and the cash value of an insurance policy are the same.

Terms Used In The Insurance Industry (Continued)

26. Physician's Expense Insurance: A form of health insurance which pays the cost of a doctor's care other than surgical procedures.

27. Policy: A legal contract between the insurance company and the insured.

28. Premium: A regular installment of money paid to the insurance company for insurance coverage.

29. Risk: A happening which may present the possibility of financial loss.

30. Settlement Options: Alternatives by which the policyholder or beneficiary may choose to have life insurance proceeds paid as income installments.

31. Standard Fire Insurance: Form of insurance which provides for fire protection of personal property in a home which is not owned by the insuree.

32. Straight Life: Type of policy which provides protection for the insured person's lifetime with premiums payable for life.

33. Surgical Expense Insurance: A form of health insurance which pays specific costs incurred for medical surgical service.

34. Term Insurance: Type of insurance which provides limited protection for a specified period of time and does not accumulate cash or loan value.

35. Waiver: A policy clause which excludes coverage for pre-existing conditions.

Terms Used In The Insurance Industry (Continued)

Match the terms from the right hand column with their definitions in the left hand column. Place the identifying letters in the blanks at the left.

Section I

____ 1. The amount of money which will be paid to the owner of a whole life or endowment policy if the policy is given up.

____ 2. The amount of money which must be paid by the policy owner for a loss before provisions of the policy go into effect.

____ 3. A policy terminated for non-payment of a premium.

____ 4. A sales and service representative for an insurance company.

____ 5. A period of time following the premium due date, during which an overdue premium may be paid without penalty.

____ 6. A policy clause which excludes coverage for pre-existing conditions.

____ 7. A form of insurance which pays injured or ill persons for all or part of their wages when they are unable to work.

____ 8. A form of health insurance which pays stipulated costs of hospitalization.

____ 9. The individual protected by an insurance policy.

____10. Form of insurance which provides financial protection to the automobile operator and/or owner from loss caused by the operation of an automobile.

A. Grace Period
B. Loan value
C. Policy
D. Premium
E. Hospital expense insurance
F. Disability income insurance
G. Automobile insurance
H. Boat owner's insurance
I. Agent
J. Cash value
K. Deductible
L. Waiver
M. Straight life
N. Lapsed policy
O. Insured
P. Risk
Q. Limited payment life
R. Term insurance

Terms Used In The Insurance Industry (Continued)

____11. Type of policy which provides protection for the insured person's lifetime with premiums payable for life.

____12. Type of policy which offers protection for life, but premiums are paid for only a set number of years.

____13. The amount of money which a person can borrow against an insurance policy.

____14. An insurance policy which provides protection for losses which can be incurred while towing, launching, operating or retrieving a boat.

____15. A legal contract between the insurance company and the insured.

____16. A regular installment of money paid to the insurance company for insurance coverage.

____17. A happening which may present the possibility of financial loss.

____18. Type of insurance which provides limited protection for a specified period and does not accumulate cash or loan value.

A. Grace period

B. Loan value

C. Policy

D. Premium

E. Hospital expense insurance

F. Disability income insurance

G. Automobile insurance

H. Boat owner's insurance

I. Agent

J. Cash value

K. Deductible

L. Waiver

M. Straight life

N. Lapsed policy

O. Insured

P. Risk

Q. Limited payment life

R. Term insurance

Match the terms from the right hand column with their definitions in the left hand column. Place the identifying letters in the blanks at the left.

Section II.

____ 1. A form of health insurance which pays specific costs incurred for medical surgical service.

____ 2. A life insurance policy which provides insurance protection and an insured savings plan for a set number of years.

____ 3. A form of health insurance which pays major medical expenses incurred to include serious and prolonged illness.

____ 4. A policy which insures individual and/or property protection in cases of owner liability.

____ 5. A payment of funds to the insured for losses which are covered by the provisions of the policy.

____ 6. A person named in a policy who will receive insurance proceeds upon the death of the insured.

____ 7. A formal notice to an insurance company requesting payment of an amount due under the terms of the policy.

____ 8. The amount which will be paid in case of death or at maturity.

____ 9. The date (and hour) upon which a policy goes into effect.

____10. A broad form of insurance which covers most of the risk involved in home ownership.

____11. A form of health insurance which pays the cost of a doctor's care other than surgical procedures.

A. Benefit
B. Face value
C. Claim
D. Endowment
E. Major medical expense insurance
F. Physician's expense insurance
G. Homeowner's insurance
H. Insurability
I. Maturity
J. Settlement options
K. Standard fire insurance
L. Liability
M. Insurable interest
N. Beneficiary
O. Effective coverage date
P. Liability insurance
Q. Surgical expense insurance

Terms Used In The Insurance Industry (Continued)

____12. Coverage provided by an insurance company under terms of a policy.

____13. Property and/or liability insurance which protects a person from financial loss due to property damage or destruction.

____14. Acceptability of an applicant for insurance.

____15. Form of insurance which provides fire insurance protection on the personal property of individuals who do not own a residence.

____16. The age at which the face value and cash value of an insurance policy are the same.

____17. Alternatives by which the policyholder or beneficiary may choose to have life insurance proceeds paid as income installments.

A. Benefit

B. Face value

C. Claim

D. Endowment

E. Major medical expense insurance

F. Physician's expense insurance

G. Homeowner's insurance

H. Insurability

I. Maturity

J. Settlement options

K. Standard fire insurance

L. Liability

M. Insurable interest

N. Beneficiary

O. Effective coverage date

P. Liability insurance

Q. Surgical expense insurance

LEARNING ACTIVITY B

CONCEPT OF RISK SHARING

Objective: You will be able to demonstrate your knowledge of risk sharing by listing the risks which you take and the ways of avoiding or reducing the seriousness of each risk.

Primitive people had little need for our present type of insurance. Their life style was simple in comparison to the complexities of our modern life style. Nevertheless, many primitive peoples did have their own form of insurance which was carried out as a group standard. These people pooled their time and labor in order to provide for the health, safety, and care of all members of a group. The American Indians lived off the land and saw no need for individual ownership of real estate. The able members of a tribe hunted, fished, raised crops and performed the labor required in order to provide for all, including children, aged and ill members of the group. In case of death or injury, all able members took the responsibility of caring for the family. This was actually a simple form of insurance where wealth was pooled to provide for all.

The sharing of business and occupational risk has been practiced throughout history. Sea-faring people in the Mediterranean area banded together to share the risks of loss or damage to their ships and cargos.

Concept of Risk Sharing (Continued)

The ancient Romans devised a life insurance plan for their soldiers. Burial societies were formed to share the cost of funerals. In the middle ages the trade guilds banded together to provide group protection for guild members and their families.

In 17th century English shop owners and shippers organized an underwriter's plan for sharing the risk of marine shipping risks. Underwriters would sign contracts or guarantees to pay a percentage of loss in case a cargo or ship was lost at sea. If the ship reached the port safely, the underwriters also shared in the profits.

Life insurance of the type which we have today grew out of a type of marine insurance where protection was made available to ship's passengers. Early life insurance policies in this country were also developed to protect members and families of trade and other associations. In the 1700's the Corporation for The Relief of Poor and Distressed Widows and Children of Presbyterian Ministers was organized. Trade guilds in New York City and Philadelphia organized similar plans for their members and families.

As can be noted from ancient beginnings, <u>risk sharing</u> was an economical way for groups to provide for the survival and protection of all members. As society became more complex, there was an increased need for insurance (risk sharing) protection. Today the insurance industry leads among the largest corporations in the world, second only to the major oil companies. Of course, the American Insurance Industry also provides

protection for the major oil companies. The individual can also profit from the protection afforded by our modern and flexible insurance industry. In fact, the complexity of society requires that the individual have some type of protection against risk of financial loss. Insurance is the primary plan which provides that protection.

TEST YOUR KNOWLEDGE

Indicate if you agree or disagree with the following statements by placing A or D in the blanks at the left.

____ 1. Insurance is made possible because large numbers of people are willing to share the cost of the same kind of risk.

____ 2. Some of our risks are shared by paying taxes for protection that is provided by local fire and police departments.

____ 3. Most of us can afford to buy insurance to protect us against every possible loss.

____ 4. Well-planned income replacement will provide families with adequate protection as their needs change.

____ 5. Protection against the loss of income because of illness, accident or death is obtained by purchasing property and casuality insurance

____ 6. It is easier to decide how much life and health insurance you require than it is to determine the amount of auto or fire insurance which is needed.

____ 7. If a family is covered by enough insurance, it can prevent or avoid economic risks.

____ 8. Without the responsibility of a family it is not necessary to be concerned about income replacement.

Concept of Risk Sharing (Continued)

Directions: In your own words discuss how the risk sharing of primitive society was similar to the insurance concept o. ur pres t culture. Write your answer below.

Concept of Risk Sharing (Continued)

Directions: In the left hand column below indicate at least 12 risks which might face you in a whole week, covering your time spent at home, at school, at work and during your leisure time. In the right hand column indicate how you might be able to prevent these risks or reduce the seriousness of their effects. Indicate which areas of risk could be covered by insurance.

Risks That I Face	Ways to Avoid or Reduce the Seriousness of Each Risk
Home risks:	
School risks:	

Concept of Risk Sharing (Continued)

Risks That I Face	Ways to Avoid or Reduce the Seriousness of Each Risk
Work risks:	

LEARNING ACTIVITY C

AUTOMOBILE INSURANCE

Objective: You will be able to demonstrate your knowledge of automobile insurance by listing and explaining 6 types of automobile insurance.

Introduction: Automobile insurance can cover several types of losses. It protects automobile owners against costs due to bodily injury, property damage, medical bills, collision, and comprehensive damage, including fire and theft. It also protects the owner from the cost of damage caused by a motor vehicle driver who has no insurance. It is also possible to buy insurance which protects the vehicle owner from the cost of towing and other emergency situations.

It is possible to buy a policy which covers all of these risks or one which covers selected risks. In most states it is illegal to drive a car unless the owner has a designated amount of liability insurance. The kinds of automobile insurance coverage which most companies offer are discussed below.

BODILY INJURY LIABILITY

Bodily injury liability insurance protects the driver, passengers and other persons who are authorized to drive your car. It protects you against the cost of claims made by those who may be killed or injured by your automobile. If individuals are killed or hurt through your negligence, your bodily injury liability insurance will pay for death and/or injury up to the dollar coverage of your policy.

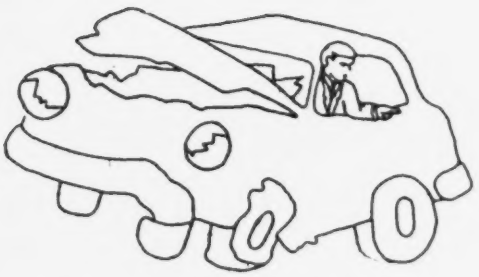
Automobile Insurance (Continued)

Bodily injury claims are often costly. Many people who are injured in auto accidents take their cases to court. They may take court action against the person who caused the accident. For this reason, many drivers today carry $250,000 bodily injury protection for injuries caused to one person and considerably more for injuries caused to all persons involved in an accident.

Please note the following example of insurance inadequacy. At 45 years of age, Ms. Jones was crippled in a car accident caused by Mr. Henly Before the accident, Ms. Jones had hoped to continue her work as a postal clerk for another twenty years. Because of the injuries suffered in the accident, Ms. Jones was forced to take another job which paid $5,000 less per year. Ms. Jones sued Mr. Henly. A jury awarded Ms. Jones $100,000 damages for lost wages ($5,000 a year multiplied by 20 years). Mr. Henly carried only $50,000 bodily injury liability insurance. Therefore, Mr. Henly was ordered to pay Ms. Jones the remaining $50,000. In many cases insurance awards will include projected raises in pay which a person could have received over a period of time.

Because accident victims are often awarded large amounts of money, you should be certain that you have adequate coverage. Many insurance companies suggest a coverage of $250,000 for injuries or death suffered by one person and $500,000 bodily injury protection for all persons injured or killed in an accident.

PROPERTY DAMAGE LIABILITY



Property damage liability insurance covers damage to another person's car and the cargo or personal effects. Damage done to another person's home or property is also covered by property damage liability insurance, up to the limits of your coverage. Automobile owners will typically carry at least $50,000 of property damage liability protection. It would be well to increase this amount of coverage. The damage to some new cars could cost as much as $30,000. The cost of replacing a damaged traffic signal can be $10,000 to $15,000 or more. If you damage a truck, you will be required to pay for the truck damage as well as the damage to its contents. A recommended amount of property damage coverage will range from $50,000 to $100,000.

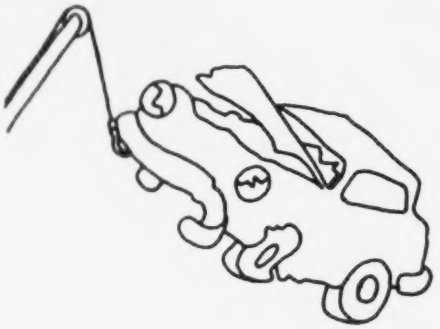
MEDICAL PAYMENTS

Medical payments insurance cover injuries which you or riders in your car may sustain. This type of insurance pays doctor bills, hospital bills and funeral costs, irregardless of who was responsible for the injuries or deaths. Medical payments coverage also pays for reasonable medical expenses which

you and your family may incur as a result of an accident while riding in another person's car, while walking, or while riding a bicycle. Insurance companies provide this protection for an additional fee.

Medical payments coverage will pay costs only up to the designated policy limit. If you or your passengers have individual health insurance, it could also pay toward medical expenses depending on the coverage. Health insurance will be discussed in a later section.

COLLISION



Collision insurance covers damage to your car if it is involved in a collision with another car or object irregardless of who is at fault. The insurance company pays the bulk of the damage cost. If your car is damaged beyond repair, you will receive a payment equal to the current value of your car. Collision insurance also covers damage done to your car by hit-and-run drivers and by uninsured drivers.

With most collision coverages, the insured pays a designated amount of the loss, depending on coverage. The amount the insured must pay is called the deductible. The insurance company pays the remainder, up to the actual value of the car.

Collision insurance is costly because auto body repair costs are time consuming and expensive. The higher the deductible amount, the less the coverage will cost. Having a higher deductible on a vehicle is one way to reduce car insurance costs. Many people do not carry collision coverage after a car is five or more years old because replacement cost becomes less expensive.

COMPREHENSIVE

Comprehensive insurance pays for damage to your car by windstorms, sandstorms, fire, hail, lightning, flood, falling objects and other hazards. It also insures against vandalism and theft. Accessories which are added, such as a radio, CB, etc. may require special coverage.

Insurance companies urge you to lock your car at all times. They will not pay theft claims unless you can prove that tampering occurred. In some cases companies may not insure a car or its contents against theft unless it is kept in a garage when not in use.

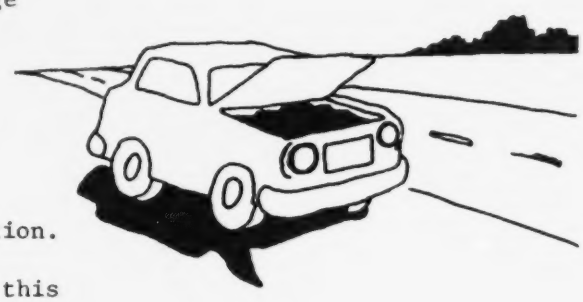
UNINSURED MOTORIST COVERAGE

Uninsured motorist insurance protects you and your passengers from the costs of bodily injuries suffered in an accident with a motorist who is not covered by insurance. In some states this coverage is required, however it is not extremely expensive when compared with other types of coverages. The State of Virginia requires that all drivers carry uninsured motorist coverage. As

insurance costs keep rising, more drivers are carrying little or no automobile insurance. Thus, insurance protection against an uninsured motorist is a wise idea.

TOWING AND ROAD SERVICE COVERAGE

For a small cost each year, you can insure yourself against the cost of having your car towed to a garage for repairs in the event that it breaks down while you are driving. If you belong to a motor club, your dues will pay for this protection. If you do not, you may want to add this coverage to your automobile insurance policy. Most insurance companies offer this coverage.



NO FAULT INSURANCE

In the early 1960's the automobile insurance system throughout the United States was the target for a great deal of public criticism. Dissatisfaction was expressed not only by the purchasers but also by insurance companies and by state insurance regulation officials.

The criticism and dissatisfaction focused on the expensive and time-consuming process of determining who is at

fault and legally liable in the event of accident. Frequently, this process required the services of lawyers for both the person suing and the persons or agencies being sued. Because of the large number of cases, particularly in urban areas, trials and settlements of claims were often subject to extremely long delays. Court decisions and jury awards were often inconsistent, resulting in a situation where some victims received considerably more than their actual losses, some received considerably less, others, equally deserving, sometimes received nothing at all.

No fault insurance has been initiated in over half of the states and is being considered in many others. The no-fault concept eliminates the need for a legal process of proving blame in an accident before payment can be made by an insurance company. Under no fault insurance, each person's financial losses, such as medical, hospital, vehicle damage, and loss of income, are paid by the vehicle owner's insurance company without concern for who was at fault. In practice, however, lawsuits are permitted under certain prescribed conditions. Massachusetts was the first state to enact a "no-fault" auto insurance law, effective January 1, 1971.

"No-fault" laws vary from state to state. Basically, variations involve:

- amount to be paid an insured person for medical expenses or in event of death, for funeral expenses.
- amount of loss of income to be paid an injured income producer.
- amount to be paid to a person hired to perform essential services which an injured non-income producer (such as a homemaker) is unable to perform.

conditions governing the right to sue, which usually include (1) death; (2) permanent injury or disfigurement; and (3) a point at which medical expenses reach a stipulated amount, referred to as the "threshold for suit".

inclusion or exclusion of property damage.

There are other variations of no-fault insurance but those previously discussed are the primary considerations. The wise motorist who wishes to buy insurance will find it helpful to gain a thorough understanding of the "no-fault" law in a particular state. It is much easier to understand the "no-fault" concept when one is thoroughly acquainted with the seven basic coverages of auto insurance which have been in effect throughout the United States for years. All of these coverages are still applicable under "no-fault" laws.

The chart below shows the typical coverages provided by standard auto insurance policies. It is suggested that you read your policy completely in order to determine that it provides the coverage necessary to meet your needs.

EIGHT KINDS OF AUTO INSURANCE

Kind of Coverage	Persons Covered			Property Covered	
	The Insured and Family	Persons Other Than the Insured	The Insured's Car	Cars Other Than the Insured's	Property Other Than Cars
1. Bodily injury liability					
2. Property damage liability					
3. Medical payments					
4. Collision					
5. Comprehensive					
6. Uninsured motorist coverage					
7. Towing & road service					
8. No fault					

SOURCE: Courtesy of the Insurance Information Institute.

AUTOMOBILE INSURANCE PREMIUMS

The amount of money which you pay for automobile insurance protection varies. Each insurance company charges premiums based upon its costs. Your age will also affect the premiums amount. People under 25 are charged higher premiums than older drivers. Studies made by insurance companies show that drivers under 25 years of age have considerably more accidents per miles driven than those over 25. Young men under 25 years of age are charged more for insurance coverage than are women under 25. You may be able to get a discount if you pass a driver education course, drive a small car, or have no traffic violations for three or more years.

The premium which you pay is also based on the amount of coverage which you choose, the kind of car you insure, the number of miles which you drive each year, how the car is used, the ages of other people who drive your car, your driving record, cost of claims which you make, and where you live. People who live in cities pay more for automobile insurance than people who live in surburbs or in small towns. The cost of an average automobile insurance policy in five different cities in the United States is shown in the chart below.

COMPARING CAR INSURANCE COSTS*

	Bodily Injury and Property Damage Liability*	Medical Payments	Comprehensive	Collision ($100 deductible)	Uninsured Motorist Coverage	Total
Atlanta	$179.25	$24.00**	$ 83.25	$223.50	$ 2.55	$ 512.55
Chicago	303.86	8.46	119.85	227.01	9.75	668.93
Cleveland	244.02	11.76	221.97	239.61	4.80	722.16
Los Angeles	373.98	26.91	130.41	238.74	30.30	800.34
New York	330.12	86.94**	465.57	497.07	2.25	1381.95

*Liability coverage $50,000 for death or injury of one person; $100,000 for death or injury of several persons; $10,000 for property damage; $1,000 for medical bills and uninsured-motorist coverage.

**Includes expanded personal injury protection under the state's no-fault law, $10,000 in Atlanta and $50,000 in New York.

SOURCE: State Farm Mutual Insurance Company, Bloomington, Indiana.

CANCELING AUTOMOBILE INSURANCE

Both the insured and the insurer have the right to cancel or stop an insurance policy. The insured may cancel at any time. The company may cancel a person's policy for one of the following reasons.

- failure of the insured to file a written report on an accident.
- failure to pay the premium on time.
- arrest and conviction for driving while under the influence of alcohol or drugs.
- hiding or lying about major facts on an insurance application.

If an insurance company cancels a policy, it must give an explanation in writing. It must also tell the insured that it is possible to buy coverage at higher-than-normal rates through an assigned risk plan. Under an assigned risk plan, insurance companies mutually agree to insure a designated number of high risk drivers each year. The insured cannot choose the insurance company. People who feel their coverage was cancelled unfairly may file a complaint with their state insurance commissioner.

TEST YOUR KNOWLEDGE

Respond to the following questions on automobile insurance.

T F 1. All youthful drivers pay about the same amount of premiums for their automobile insurance.

T F 2. State no-fault laws eliminate the right to sue for injuries incurred in anto accidents.

T F 3. If, as a pedestrian, you are injured by a hit-and-run driver, your uninsured motorists coverage applies and your insurance company will pay for your injury.

T F 4. No-fault laws are a revision of, not a replacement of, the auto insurance system throughout the United States.

T F 5. Bodily injury insurance does not apply to guests riding in your car.

T F 6. If you carry collision insurance and your car collides with another vehicle, your insurance company will pay for damages to your car even if it is obvious that you were at fault.

T F 7. Financial responsibility laws make automobile insurance compulsory.

8. The first state to pass a no-fault insurance law was _____.

9. Which one of the following is not covered by property damage liability insurance?

   A. Damage to cars of others caused by your car.

   B. Damage to your car as a result of turning over.

   C. Damage to property other than cars caused by your car.

10. In which of the following instances does comprehensive physical damage insurance apply?

   A. A car skidding and turning over.

   B. Damage from fire, lightning, flood, windstorm and earthquake.

   C. A frozen radiator.

11. Name seven kinds of automobile insurance coverage which you can buy.

   A. _____ D. _____

   B. _____ E. _____

   C. _____ F. _____

   G. _____

12. Which kind of automobile insurance would cover you in each situation listed?

    A. You run into a parked car with your vehicle and cause $600 in damages to the parked car._____

    B. Your friend's fingers are broken when your car door is shut on them._____

    C. Your car rolls down a hill and crashes into a concrete wall, causing $1,000 in damages to the car. _____

    D. Your car is stolen from a parking lot while you are at the movies. _____

    E. A driver runs into the rear end of your car and then drives away. Your car has $500 in damages. _____

13. List 5 things which affect the premium amount which you pay for automobile insurance. (a)_____

    (b)_____ (c)_____

    (d)_____ (e)_____

    (f)_____

14. In Virginia the state requires that you purchase the minimum amount of which types of auto insurance coverage?_____

    _____

15. List five conditions which are grounds for canceling your auto insurance policy.

    A. _____

    B. _____

    C. _____

    D. _____

    E. _____

LEARNING ACTIVITY D

HOMEOWNERS INSURANCE

Objective: You will be able to demonstrate your understanding of homeowners insurance by: (a) Defining property and liability insurance; (b) Computing adequate coverage for a home, based upon appraisal value; (c) Naming and defining three types of liability insurance.

HOMEOWNERS POLICY

The homeowner is also faced with possible financial losses. Therefore, the homwowner must consider the possible loss of the home, its contents, and other personal property. The homeowner must also consider losses arising from lawsuits which result from personal injury to guests. While each of these risks can be insured separately, insurance companies have developed insurance policies which insure against groups of perils (dangers which lead to economic loss). These are called homeowners policies. Comprehensive homeowners policies are also referred to as "all-risk" policies.

The homeowners policy is available to owner-occupants of one and two-family private residences. Although the policy insures against many perils, there is only one policy and only one premium payment to be made. In addition, the total insurance package ordinarily costs 20% to 30% less than that of separately purchased coverages.

Homeowners Insurance (Continued)

A typical homeowner's policy covering all risks would include the following coverages and limits:

Coverage A - Dwelling building, $100,000 (as an example)

Coverage B - Appurtenant private structures 10% of Coverage A

Coverage C - Personal property, 70% of Coverage A

Coverage D - Additional living expense, 20% of Coverage A

Coverage E - Comprehensive personal liability, $100,000 per occurance

Coverage F - Medical payments, $1,000 per person

Coverage G - Physical damage to property, $250 per occurrence (This coverage provides payment of losses to property of another caused by the insured, regardless of legal liability)

Coverages A, B, C, and D are explained under "Property Insurance Under the Homeowners Policy" in the section that follows. Coverages E, F, and G are explained under "Liability Insurance Under the Homeowners Policy" section of this learning activity.

PROPERTY INSURANCE UNDER THE HOMEOWNERS POLICY

The chart on page 38 shows the three basic policy coverages (standard, broad, and comprehensive) which may be purchased to protect against certain perils to the house and appurtenant private structures.

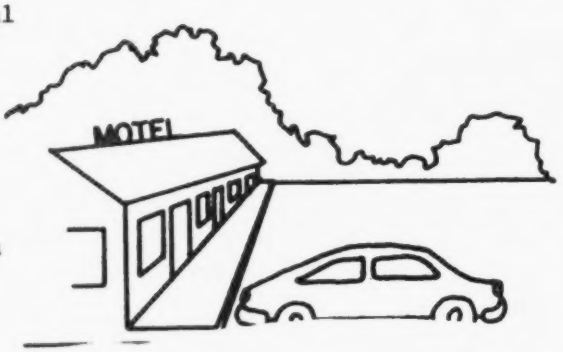
Under a homeowner's policy, the house or dwelling is covered. Guest houses, sheds, garages, and other structures used in connection with the home are known as appurtenant private structures. They usually are covered up to 10% of the amount

of coverage carried on the house. The illustration on the following page shows the eleven perils covered under the standard form and the nineteen perils covered under the broad form. All perils are covered under the comprehensive form except those specifically excluded.

Personal property is also covered. This coverage includes household contents and other personal belongings which are used, owned, worn, or carried by the family. The protection applies both at home and away from home. Pets are not considered as personal property. Automobiles and the property of roomers or boarders are not covered.

As an extension of the homeowners policy, it is also possible to obtain a personal article floater or an all perils policy for a slight increase in the cost of insurance. The personal article floater or all perils policy insures all items of personal property that are listed, described, and assigned a definite dollar value. Property so listed in the policy is insured separately against almost all risks of loss or damage, with a few minor exceptions such as moths, vermin, and dampness.

The normal homeowners policy usually covers 10% of the total value of unlisted personal property or a maximum of $1,000 against loss that occurs off the premises. A personal article floater increases this amount to any designated sum. In addition, the personal effects article floater provides protection from loss due to mysterious disappearance, that is, personal



HOMEOWNERS POLICY--PROPERTY INSURANCE

Summary of Coverage--Standard, Broad, and Comprehensive Forms

Standard Policy

Perils Covered

1. Fire and lightning
2. Loss or damage to property removed from premises endangered by fire
3. Windstorm or hail
4. Explosion
5. Riot, riot attending a strike, and civil commotion
6. Aircraft
7. Vehicles, if not owned or operated by occupant of premises
8. Smoke or smudge caused by sudden, unusual, or faulty operation of a cooking or heating unit
9. Vandalism and malicious mischief
10. Theft
11. Breaking of glass constituting a part of the building

Broad Policy

Additional perils covered

12. Falling objects
13. Weight of ice, snow, or sleet
14. Collapse of building or any part thereof
15. Accidental discharge, leakage or overflow of water or stream from within a plumbing, heating, or air-conditioning system
16. Sudden and accidental tearing asunder, cracking, burning, or bulging of a steam or hot water heating system
17. Sudden and accidental tearing asunder, cracking, burning, or bulging of appliances for heating water for domestic consumption
18. Freezing of plumbing, heating and air-conditioning systems and domestic appliances
19. Sudden and accidental injury to electrical appliances, devices, fixtures, and wiring (TV picture tube not included)

Comprehensive Policy

All perils except: earthquake, landslide, flood, surface water, waves, tidal water or tidal wave, the backing up of sewers, seepage, war, and nuclear radiation

property which disappears but there is no evidence concerning what happened to it. For example, a camera taken from a locked automobile is presumed to have been stolen if there is visible evidence of forceful entry. In such a case, the loss is covered under a normal homeowners policy as a part of the 10% extension coverage. Any deductibles which apply to the regular policy also apply when the loss occurs off the premises. A camera taken from an unlocked car would be called a mysterious disappearance, and the loss would not be covered under a normal homeowners policy. The loss would be covered if the camera were listed as part of a personal article floater.

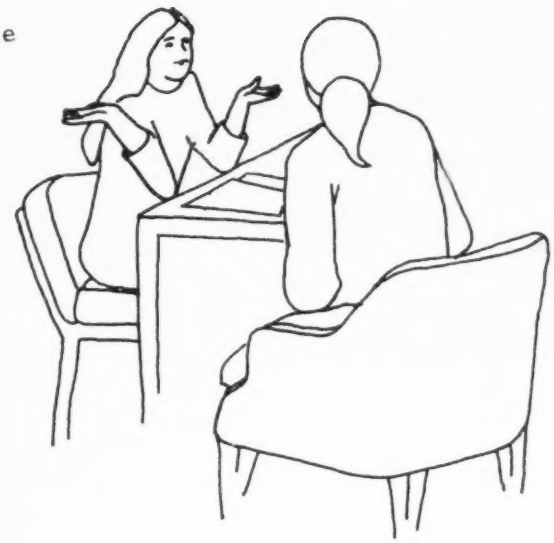
The family is insured for additional living expenses in the event that major damage to the home requires the family to live elsewhere. These expenses must be documented and are limited to the period of time it takes (with due attention and speed) to repair the damaged property.

Under the standard and broad forms, only those perils listed are covered. Under the comprehensive form, all perils are covered except those specifically excluded. Shrubs, trees, plants and lawn are not covered against windstorms and hail in the standard homeowners policy. Damage from perils other than fire and lightning are usually subject to a deductible clause. For example, with a $50 deductible clause, the insurance company would pay the homeowner only $75 of a $125 loss. The homeowner is required to pay for the first $50 of the loss.

AMOUNT OF COVERAGE

The homeowner should carry enough property insurance, but not too much. The amount of insurance that should be purchased is determined by the replacement cost of the home. Replacement costs usually are

determined through an appraisal by a competent appraiser. Some insurance companies will, with the approval of the insured, automatically increase the coverage by 5% a year. This is done without appraisal. Experience has proved that most real estate has appreciated (increased in market value) at least 5% a year for the last 10 years. Inflation and a lack of good building sites are two reasons for this appreciation.



Assume that the appraisal indicates that $50,000 of insurance should be carried on the house. This amount then determines the amount of other property coverages included in the homeowners policy. A typical example of these coverages is shown below.

Dwelling	$50,000
Appurtenant private structures (10% of dwelling)	5,000
Personal property (not otherwise covered)(70% of dwelling)	35,000
Additional living expense (20% of dwelling)	10,000

An inventory of personal property is desirable in the event of loss. This inventory serves as the basis for making claims and prevents the need for depending one one's memory. It is wise for homeowners to photograph each room in the home. Of course, the inventory or photographs must be

kept in a safe, fireproof place preferably in a bank safety deposit box. The insurance company will often accept a sworn statement as to the loss of personal property. However, the safest practice is to keep some type of inventory record of the insured property.

LIABILITY INSURANCE UNDER THE HOMEOWNERS POLICY

Individuals may injure themselves or may cause property damage while on the premises of a homeowner. In addition, the actions of members of the family may result in injury to other persons or damage to the property of other persons, either on the premises of the homeowner or away. The members of the family may become personally liable for claims arising as a result of these situations.

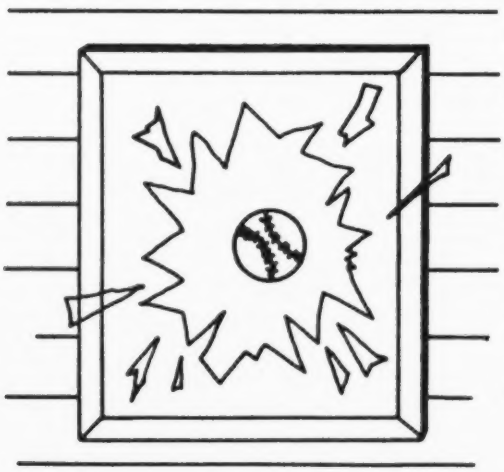
The liability insurance portion of a homeowners policy protects the family against claims in three areas: (1) comprehensive personal liability, (2) medical payments, and (3) physical damage to the property of others.

Comprehensive Personal Liability. Coverage under a comprehensive personal liability policy protects the homeowner against claims arising from bodily injury to others or damage to the property of others. No claim is paid by the insurance company under this provision unless it has been established that the insured is legally liable. A guest in the home might fall down a basement stairway, break a leg, and proceed to file suit for damages. Under this provision, the insurance company would

represent the homeowner in court. The company would pay the cost of defending the homeowner and would pay the damages, if any, up to the limits of the policy. Usually, the basic coverage of this provision is $25,000 to $100,000 for each occurance.

Medical Payments. A medical payments provision protects the homeowner from accidental injury claims of others arising from action of the homeowner, family members, or family pets either on or off the homeowner's property. The insurance company pays the claims of the injured party, regardless of who is at fault. The claim would include the cost of the medical and surgical services incurred within one year of the accident. The amount of coverage for each person usually is $1,000. This coverage, does not apply to members of the homeowner's family or the homeowner.

Physical Damage to Property of Others. A clause providing coverage for physical damage to the property of others protects the homeowner, and the family when any member of the family damages another person's property. For example, the homeowner's lawn mower might throw a stone through a neighbor's window. Such damages are paid up to the limit of the policy, typically $250 to



$500 for each occurrence. Coverage is provided whether the act is committed on or off the property of the homeowner and whether or not the homeowner is at fault.

FACTORS AFFECTING THE COST OF PROPERTY AND LIABILITY INSURANCE

As noted in the chart on page 38, three types of homeowners policies are available: (1) the standard form, (2) the broad form, and (3) the comprehensive form. Sample comparative costs of these policies based on the replacement value of a home worth $100,000 are

Coverage	Cost for 3 years
Standard form (11 perils)	$750.00
Broad form (19 perils)	828.00
Comprehensive form (all risks)	1490.00

Cost of coverage varies according to geographic location, water supply available for fire fighting, efficiency of the local fire department, type of construction of the home and other factors.

TEST YOUR KNOWLEDGE

Respond to the following items on homeowners insurance.

1. In Newport News, about how much would it cost to insure a $50,000 home, plus contents, against loss or damage from 19 different perils?

   A. Approximately $750.00

   B. Approximately $828.00

   C. Approximately $745.00

T F 2. More homes are exposed to the peril of fire than to the danger of floods.

Homeowners Insurance (Continued)

T F 3. A homeowners policy provides both property and liability insurance.

T F 4. The cost of home insurance is a relative large item in a family budget.

T F 5. The chief difference between the basic and broad forms of a homeowners policy is found in the number of perils your property is insured against.

T F 6. The comprehensive form of a homeowners policy lists the perils for which your property is insured.

T F 7. While burning leaves in your back yard, you accidently set fire to your garage. Your homeowners policy will pay for damage done even though you were responsible for the fire.

T F 8. While visiting your neighbor you accidentally upset a small glass-top table, breaking it into several pieces. If your family has a homeowners policy, the insurance company will pay your neighbor for the damage which occurred up to the limits of the policy.

T F 9. A friend stops by to visit you, and through his own carelessness, falls on your property and injuries his knee. Several days later you learn that his infected knee is under a doctor's care. Your insurance company will not pay your friend's $150 medical bill because he was responsible for his own injury.

T F 10. Under a homeowners policy the term "appurtenant structures" refer to a

A. beach house

B. temporary structure placed in the yard

C. permanent structure located on the property.

T F 11. You hit a ball which goes through your neighbor's car window. What section of your policy provides coverage?

A. Personal property

B. Comprehensive personal liability

C. Physical damage to property

T F 12. You return to your parked car, and find that someone has broken into the car and stolen your camera. Are you covered?

13. The homeowners policy comes in three general forms. They are:

A._____ B._____

and C._____. Which provides the greatest coverage? D._____, The least coverage? E._____

_____.

14. In the language of the homeowners policy, the coverages are known as

A. loss coverages

B. insured perils

C. insured interests

15. If you have expensive and/or rare items in your home, it is best to make a(an) _____ and back it up with _____ to be filed in a safe place.

16. Normally a homeowners insurance policy is purchased for a period of:

A. one year

B. three years

C. two years

17. Five factors which can affect the cost of homeowners insurance are:

A._____ D._____

B._____ E._____

C._____

18. Under the medical payments provision of the homeowners policy, which of the following are covered?

    A. Accidental injuries caused by members of your family

    B. Injuries caused by family pets

    C. Injuries caused by structural failures of the house

    D. All of the above

19. A neighbor's child is injured while playing on your lawn. You do not consider yourself at fault in any way, however your neighbor sues you for $20,000. It is proven in court that the child was injured to the extent of the amount of the suit. It was the opinion of the court, however, that you were not legally liable (not to blame) for the child's injury. Which of the following will your insurance company do, in compliance with the homeowners policy?

    A. Pay $20,000 damages to your neighbor

    B. Pay legal costs of defending you

    C. Pay neither damages nor legal costs

    D. Pay both damages and legal costs

LEARNING ACTIVITY E

LIFE INSURANCE

Objective: You will be able to demonstrate your understanding of life insurance by: (a) explaining the purpose of life insurance, (b) listing and explaining the difference between four types of life insurance.

BUYING LIFE INSURANCE

When you buy life insurance, you insure your life, for a designated amount of money. Upon death this amount of money will be paid to the person or persons whom you designate. A person who receives this money is called a beneficiary. The individual is called a beneficiary because he or she benefits from receiving the money. The money is called a death benefit.

For example, Bill bought a life insurance policy from the Centry Insurance Company. Bill paid a premium of $200 a year for a $15,000 death benefit. Bill named his wife Betty as the beneficiary. Five years later Bill died of a sudden heart attack. Bill had paid only $1,000 in premiums in five years, but his coverage was $15,000. The insurance company paid Betty a death benefit of $15,000.

The wage earners in most American families own life insurance. Studies show that beneficiaries of life insurance benefits generally need the money to pay funeral expenses, pay debts, pay household and living costs, and help pay for their children's education. The beneficiary may receive the death benefit in one lump sum or in monthly installments.

Most individuals buy life insurance on themselves to insure their own lives. Some people, however, do buy life insurance on another person's life. If a person wishes to buy insurance on another person, however, the buyer must have an insurable interest in the life of that person. Buyers would have an insurable interest if they would suffer a loss through the death of the insured. Husbands, wives, parents, and children may buy life insurance on each other.

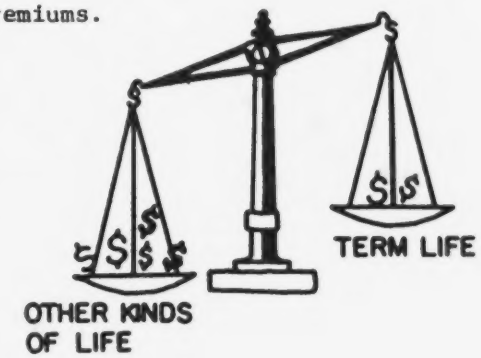
KINDS OF LIFE INSURANCE

People may choose from different kinds of life insurance policies. The four most common kinds are term, whole life, limited-payment life, and endowment insurance. Each is described on the sections that follow.

The amount of premiums which individuals pay for life insurance depends upon the kind of policy they choose, their health, their age when they buy the insurance, and sometimes their occupation. When you seek to buy life insurance you are generally required to submit to a medical examination.

Term Life Insurance. Term life insurance offers coverage for a designated number of years. Policies can be bought for a term of one or more years. Many people buy five-year term life insurance policies. When the policy

ends, the protection ends. The insured may generally renew a policy at a higher rate or convert it to another kind of insurance without another medical check-up. Term insurance provides the most protection for young people who cannot afford to pay high premiums.



The premiums for term life insurance are lower than those for other kinds of life insurance. The younger the policy holder, the lower the premium cost. The premium is a fixed cost for each $1,000 of coverage.

Term life insurance is often offered to members of groups, such as associations, churches, or labor unions. Each member's premium may be paid by the group or shared by the group and the member. Generally, group members are not required to have a medical check-up. Most group term insurance policies can be converted to individual policies if individuals leave the group.

Parents might want more insurance coverage while their children are young. If only one parent works and that person dies, the other parent would need money for living expenses until employed and wages were being earned. If the parent who cares for the home and children dies, the other parent would need money for child care and other homemaking costs.

A special kind of term insurance is called <u>decreasing term insurance</u>. As the insured person grows older, the death benefit or coverage goes down but the premiums stay the same. People will buy decreasing term policies for different reasons. A common example might be a family who

owes mortgage money on a home. By buying a decreasing term policy, in event of the death of husband or wife, the other would receive money to pay off the mortgage.

Whole Life Insurance. A second kind of life insurance is whole life insurance, also called straight life insurance. Whole life insurance provides a death benefit and a savings plan for the insured. Part of the premium which the policyholder pays each year is invested by the insurance company to build savings, or cash value, into the policy. The other part of the premium pays for a decreasing death benefit.

The cash value of the policy and the death benefit together equal the face value of the policy. The cash value of the policy is actually the amount which the insured has saved. It is less than the death benefit, although the longer premiums are paid, the greater is the cash value of the policy.

The insured may withdraw the amount of money equal to the cash value of the policy at any time by selling the policy or by borrowing all or part of the cash value. If the insured sells the policy, the individual acquires the cash value but loses the policy and the protection ends. If the insured decides to borrow some or all of the cash value, interest will be charged on the borrowed money. The protection will also be reduced by the amount borrowed. If a person borrows $2,000 on a $10,000 policy, the coverage will drop to $8,000 until the loan is repaid.

Most companies charge 5 to 8 percent interest per year on cash value loans. When the insured repays the loan, the interest charges end. The protection then returns to what it was before the loan was taken.

Limited-Payment Life Insurance. Limited-payment life insurance also provides both a death benefit and a savings plan. The main difference between limited-payment life insurance and whole life insurance is in the number of years premiums are paid. With a whole life policy, premiums are paid until death or to age 100. With a limited-payment life policy, premiums are paid only for a designated number of years, generally 20 or to age 65. The protection and cash value of the policy continue throughout the policyholder's lifetime, however. The policyholder may borrow any part of the cash value of the policy.

The chief purpose of limited-payment policies is to allow people to pay premiums during those years when they are working and most able to pay. When they retire and their income is less, they no longer need to pay premiums.

The premiums for a limited-payment policy are much higher than the premiums for a whole life policy for the same amount of protection. The reason for this is because the policyholder is paying premiums for a shorter period of time. The cash value of a limited-payment policy builds faster than the cash value of a whole life policy.

Endowment Insurance. Endowment is somewhat like a savings account. Endowment means gift. The main purpose of endowment insurance

is to give the recipient a fixed amount of money after a certain number of years--generally 10 to 30 years. Endowment policies are often called living insurance because policyholders intend to receive money from the policy while they are still living.

A twenty year, $20,000 endowment policy, for example, guarantees that, after paying premiums for twenty years, the insured will receive $20,000 in cash. If the insured dies before the twenty years, the beneficiary will receive the $20,000 as a death benefit.

Endowment insurance offers death benefit and cash value protection, similar to whole and limited-payment life insurance. It builds a cash value faster than any of the other kinds of life insurance. However, it also has the highest premium cost, which makes it the most costly savings and protection plan one can buy.

SUMMARY

As a young person you may not choose to buy life insurance immediately. When you are older and have a dependent family, however, it will be useful to know about life insurance so that you can make a wise choice in buying a policy. There are four kinds of different life insurance policies: term, whole, limited-payment, and endowment life insurance. Each kind serves different needs.

The main purpose of having life insurance is to provide money for those who are dependent upon you. An insurance policy can also be a

way to save money and to assure you of an increased income when you retire.

Life insurance generally costs thousands of dollars over a person's lifetime. It is important to comparison shop in order to get the best insurance policy for your situation. Insurance companies offer different protection plans with correspondingly different premiums. Compare policies and talk to qualified agents before you buy insurance.

A young couple should decide what kind of life insurance is best for their needs. As a family grows in size, it generally needs more financial protection. When a family's income is lowest and children are young, the need for life insurance protection is the greatest. As children grow up and become less dependent, the family will require less death benefit protection. At that time people often change their insurance to provide cash value and add to their retirement income.

TEST YOUR KNOWLEDGE

A. Match the life insurance policies from the right hand column with their best description in the left hand column. Place the identifying letters in the blank at the left.

____ 1. Cost less than the other three types.

____ 2. Has a cash value at maturity equal to the amount of insurance purchased (face value).

____ 3. Is the most flexible.

____ 4. Premiums are payable as long as the insured lives.

____ 5. Savings values increase most rapidly.

____ 6. Premiums are paid for a stated number of years, after which the policy is paid up for life.

A. Term

B. Straight or whole life

C. Limited-payment life

D. Endowment

Life Insurance (Continued)

____ 7.	Has no cash value.	A. Term
____ 8.	The cheapest form of permanent insurance.	B. Straight or whole life
____ 9.	Is considered temporary insurance.	C. Limited-payment life
		D. Endowment

B. Circle the best response

10. Personal insurance (life and health) helps families by

    A. offsetting financial losses

    B. providing additional security

    C. contributing toward peace of mind

    D. all of the above

11. The beneficiary named in a life insurance policy is the person

    A. whose whole life is covered

    B. to whom policy payments are made

    C. who pays the premiums

    D. who applies for the protection

12. Life insurance includes protection against

    A. loss of income due to illness

    B. expenses resulting from hospital confinement

    C. loss of income due to the death of the breadwinner

    D. physician's and surgical fees

13. Insurance companies make loans against life insurance policies and charge

    A. no interest

    B. high interest

    C. relatively low interest

    D. compound interest

Life Insurance (Continued)

14. Life insurance premiums cost the most when they are paid

A. annually

B. semi-annually

C. quarterly

D. monthly

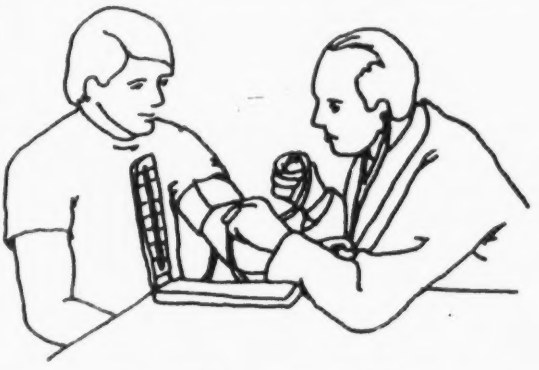
LEARNING ACTIVITY F

HEALTH AND ACCIDENT INSURANCE

Objective: You will be able to demonstrate your knowledge of health and accident insurance by (a) explaining the purpose of health and accident insurance, (b) listing and explaining the difference between four basic types of health and accident insurance.

BUYING HEALTH INSURANCE

One way to keep your health care costs down is to practice good personal health care. Your living habits have a pronounced effect on your health. Eating a balanced diet and getting plenty of exercise and rest are aids in keeping you healthy. See your doctor when you are not feeling well so that your condition can be checked before it gets serious.



Even with good health care, however, people still become ill or injured. Few people are able to pay all of their medical bills from personal income. They usually need health insurance to protect them against the high costs of health care.

Health insurance offers two basic kinds of protection.

- Protection against hospital, surgical, and other medical costs.
- Protection against the loss of income during an illness or injury.

A person may buy health insurance plans to cover the cost of hospitalization, surgery, doctor's fees, nursing care, prescription drugs, X-rays, and other major medical expenses. Each kind of coverage may be

bought separately or as part of a package plan. Package plans usually give the most coverage for the least money. Most package plans include the following kinds of coverage.

BASIC MEDICAL COVERAGE

Basic medical coverage includes hospital, surgical, and doctor's costs.

Hospital Coverage. Hospital coverage pays a fixed amount for each day of your stay in a hospital. It generally pays for your room and for other services, such as X-rays, laboratory tests, drugs, meals, and nursing care.

Surgical Coverage. Surgical coverage pays all or part of the costs of an operation. The policy generally contains a description of the kinds of operations which are covered and the amount or percentage that the insurance company will pay for each operation.

Doctor's Coverage. Doctor's coverage pays all or part of the costs of care by a doctor.

MAJOR MEDICAL COVERAGE

Major medical coverage protects individuals against the risks of long and costly health problems. Major medical coverage picks up where basic hospital and medical coverage stops. You can choose from among

many major medical coverage plans. Some pay up to $20,000, others up to $50,000 or more for each illness or injury.

Most major medical plans require the insured to pay a deductible amount of $100 to $500. Under some plans, the company pays 70 to 80 percent of the costs of major medical expenses. You are required to pay the other 20 to 30 percent. Your share of this cost is in addition to the deductible amount which you pay. The greater the percentage which you choose to pay, the lower your premium will be. This is called a co-insurance clause.

CATASTROPHIC COVERAGE

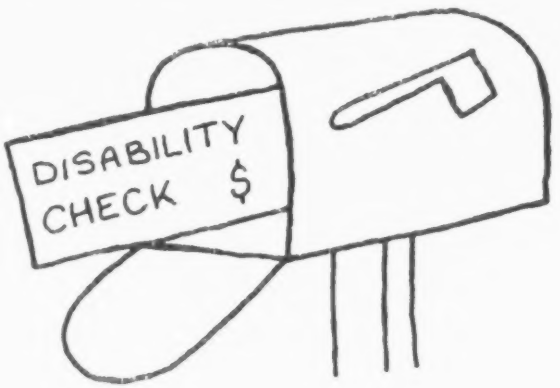
A catastrophy is a major mishap or disaster. Catastrophic coverage pays for medical costs which culminate in tens of thousands of dollars. Such costs often result from serious illnesses, such as cancer, kidney disease, or open-heart surgery.

While major medical coverage may not pay more than $50,000 for each injury or illness, catastrophic coverage may pay as much as $250,000. According to the Health Insurance Institute, a person between 25 to 29 will pay an average premium of $35 per year for $250,000 coverage with a $10,000 deductible clause.

Although the deductible is very high, major medical insurance will generally pay for all or most of the first $10,000 of costs. The premiums for catastrophic insurance are not costly because, fortunately, few people have medical problems which cost such great amounts of money.

DISABILITY INCOME PROTECTION

Disability coverage protects persons from loss of income during an illness or injury. Under this coverage, insured persons receive part of their income for the time that they are unable to work. These plans are often called income protection plans. Benefits vary according to the kind of policy.



Policies define disability differently. Some will pay benefits only if the insured is no longer able to work at any kind of job. Others will pay benefits if persons are no longer able to do the work for which they were trained.

Before you buy disability income insurance, find out how long your employer will retain you on the payroll after you suffer an illness or injury. Also, keep in mind that you will probably receive Workmens Compensation and/or Social Security disability payments if you are unable to work. Workmens Compensation and Social Security payments are discussed in another Learning Activity Package.

SUMMARY

Health insurance protects you against two basic risks: the cost of medical care and loss of income during an illness or injury. Medical costs include hospital, surgical, and drug expenses. Health insurance will pay all or part of these costs. Disability coverage, also called income protection, provides income while you are unable to work.

Basic medical insurance protection covers daily room and board costs, nursing care in a hospital, hospital services, medication, X-rays, and operating room charges. Major medical insurance protects you from the costs of a long, serious illness. The insurance company will generally pay 70 to 80 percent of the costs and the insured person will pay the remaining 20 to 30 percent. For most major medical plans, the insured also pays a deductible amount before the insurance company will begin to pay any costs.

Most employers provide group health insurance at a minimal cost to their employees. A group plan may not give you all of the protection needed however. You should know the exact provisions of your employer's plan. If it doesn't cover all of your needs, you should consider buying an individual health policy.

The premiums which you pay for individual health insurance plans vary among companies. Premiums depend on your age and job, the amount of deductible which you pay, and how much coverage you desire. Premiums will generally rise each year as you grow older.

TEST YOUR KNOWLEDGE

A. Completion

1. What two risks does health insurance protect against?

_____

_____

2. What are the three kinds of basic medical coverage included in most basic medical plans?_____

_____

B. Multiple choice. Circle the letter in front of the best statement.

3. Health insurance is an example of

   A. casualty insurance

   B. liability insurance

   C. personal insurance

   D. property insurance

4. The greatest protection against large losses due to illness is obtained through insurance covering

   A. major medical expenses

   B. hospital expenses

   C. surgical expenses

   D. medical expenses

5. Health insurance provides families with financial assistance during periods of

   A. hospitalization

   B. disabling injuries

   C. serious illness

   D. all of these

6. Health insurance that provides reimbursement for physician's operating charges is called

   A. disability income insurance

   B. loss of income insurance

   C. surgical expense insurance

   D. regular medical insurance

7. The type of health insurance that usually includes both a deductible provision and a co-insurance clause is

   A. hospitalization

   B. major medical

   C. physicians' expense

   D. surgical expense

8. A provision in a health insurance policy that requires the policyholder to share in the medical expenses is a(an)

   A. elimination provision

   B. co-insurance clause

   C. noncancellable policy

   D. noncontestable provision

9. The provision that the policyholder pays a basic amount before the policy benefits begin is called a(an)

   A. major medical insurance

   B. comprehensive coverage

   C. deductible provision

   D. co-insurance provision

Matching: Match the insurance terms from the right hand column with the coverage in the left hand column. Place the letters in the blanks.

____ 10.	Pays hospital charges and board	A. General medical expense
____ 11.	Pays a specified amount for each type of operation	B. Hospital expense
____ 12.	Pays benefits toward the expenses for doctor's calls either at home or at the hospital	C. Loss of income
____ 13.	Pays costs of serious illness or accident. Begins where other health insurance policies leave off.	D. Major medical expense
____ 14.	Pays the medical cost when it exceeds major medical coverage	E. Surgical expense
		F. Catastrophic coverage
		G. Disability income protection
		H. Basic medical coverage

POSTTEST

A. Match the terms from the right hand column with their definitions in the left hand column. Place the identifying letters in the blanks at the left. Use each letter only once.

_____ 1.	A sales and service representative for an insurance company	A. Risks
_____ 2.	A period of time following the premium due date during which an overdue premium may be paid without penalty	B. Loan value
_____ 3.	A formal notice to an insurance company requesting payment of an amount due under the terms of the policy.	C. Insured
_____ 4.	A legal contract between the insured and the insurance company	D. Liability
_____ 5.	A regular installment of money paid to an insurance company for insurance coverage	E. Premium
_____ 6.	Happenings which may present the possibility of financial loss	F. Insurable interest
_____ 7.	The amount of money which a person can borrow against an insurance policy	G. Policy
_____ 8.	An individual protected by an insurance policy	H. Agent
_____ 9.	Property and/or liability insurance which protects a person from financial loss due to property damage or destruction	I. Grace period
_____10.	Coverage provided by an insurance company under the terms of the policy	J. Claim

Posttest (Continued)

B. Circle the best response to each statement.

11. An unforeseen event which might cause a person to suffer a monetary loss is called

A. Cost sharing.
B. Economic loss.
C. Economic risk.
D. Insurance.

12. Protection against some economic losses are shared through government programs. These are usually financed through

A. Voluntary assessments.
B. Taxes.
C. Insurance programs.
D. Contributions.

13. Risk sharing through the purchase of insurance is

A. Dependent on increasing costs.
B. Government sponsored.
C. Required by law (other than auto).
D. Voluntary action.

14. Insurance companies operate under the principle that losses among groups

A. Are uncertain.
B. Are already known.
C. Should be shared by a group as a whole.
D. Cannot be determined.

15. The basic reason for insurance is that the losses for any individual

A. Are certain but unknown.
B. Cannot be determined.
C. Are known but uncertain.
D. Can be eliminated.

16. A premium in insurance is

A. The amount paid for protection.
B. A reward for buying protection.
C. A part of tax assessment.
D. A dividend paid to the policy holder.

17. Protection against loss of income is called

A. Casualty insurance
B. Liability insurance.
C. Personal insurance.
D. Property insurance.

18. Personal life and health insurance helps families by

A. Offsetting financial losses.
B. Providing additional security.
C. Contributing toward peace of mind.
D. All of the above.

19. The beneficiary named in a life insurance policy is the person

A. Whose life is covered by the policy.
B. To whom policy payments are made.
C. Who pays the premium.
D. Who applies for protection.

20. The greatest protection against large losses due to illness is obtained through insurance covering

A. Major medical expenses.
B. Hospital expenses.
C. Surgical expenses.
D. Office-call medical expenses.

21. Life insurance includes protection against

A. Loss of income due to illness.
B. Expenses resulting from hospital confinement.
C. Loss of income due to the death of the breadwinner.
D. Physician's and surgical fees.

22. Insurance companies who make loans against policies will charge

A. No interest.
B. High interest.
C. Relatively low interest.
D. Compound interest.

23. Health insurance provides families with financial assistance during periods of

A. Hospitalization.
B. Disabling injuries
C. Serious illness
D. All of the above.

24. Insurance which pays a salary if an injury prevents an employee from working is called

    A. Disability income insurance.
    B. Major medical insurance.
    C. Surgical expense insurance.
    D. Regular medical insurance.

25. Health insurance which reimburses the insured for physician's operating charges is called

    A. Disability income insurance.
    B. Loss of income insurance.
    C. Surgical expense insurance.
    D. Regular medical insurance.

26. A life insurance policy may contain the provision that premiums need not be paid if the insured is physically disabled for a period of at least six months. This provision is called a (an)

    A. Special benefit.
    B. Extended coverage.
    C. Waiver of premium.
    D. Secondary benefit.

27. Some life insurance policies pay twice the basic amount purchased if the insured is killed in an accident. This feature is called

    A. Dividend payment.
    B. Double indemnity.
    C. Co-insurance.
    D. Automatic coverage.

28. Life insurance premiums cost the most when they are paid

    A. Annually.
    B. Semi-annually.
    C. Quarterly.
    D. Monthly.

29. When a life insurance policy earns dividends, the policy holder may choose to

    A. Receive them as cash payments each year.
    B. Use them to reduce the amount of the premium payments.
    C. Let them accumulate and earn interest.
    D. Select any of the above choices.

30. The manner of paying life insurance to the beneficiary is known as

A. Continuing payments.
B. Dividend payments.
C. Settlement options.
D. Proceeds.

31. A person who stops paying premiums on a life insurance policy (other than term) may choose to

A. Accept the cash value of the policy.
B. Let the policy stay in force for its full amount for a period of time.
C. Accept a policy for a reduced amount paid for life.
D. Select any of the above choices.

32. A program of personal insurance should be

A. Replanned periodically.
B. Made by you alone.
C. Planned early and never changed.
D. Changed every year.

33. The best agent for you is one who

A. Is well prepared.
B. Explains how policies meet your needs.
C. Is pleasant to work with.
D. All of the above.

C. Match the types of life insurance from the right hand column with the descriptive statements in the left hand column. Place the identifying letters in the blanks at the left.

_____ 34.	Costs less than the other three types.	A. Term
_____ 35.	Has a cash value at maturity equal to the amount of insurance purchased.	B. Straight life
_____ 36.	Is the most flexible.	C. Limited payment
_____ 37.	Premiums are payable as long as the insured lives.	D. Endowment
_____ 38.	Savings values increase most rapidly.	

_____ 39.	Premiums are paid for a stated number of years, after which the policy is paid up for life.	A. Term
		B. Straight life
_____ 40.	Has no cash values.	
_____ 41.	The cheapest form of permanent insurance.	C. Limited payment
_____ 42.	Is considered temporary insurance.	D. Endowment

D. Circle the T if the statement is True, F if it is False.

T F 43. The amount wage earners should spend for insurance protection is 10 percent of income.

T F 44. It is wise for the typical family to buy as much insurance as it can afford.

T F 45. The head of a family should buy all types of insurance which are available.

T F 46. Economic risks should be studied carefully before purchasing the proper form of insurance protection.

T F 47. Most persons should buy straight life insurance because it is the cheapest form of permanent protection.

T F 48. Young married persons should buy limited payment life insurance in order to keep from paying premiums during their retirement years.

T F 49. Homes are exposed to the danger of fire more than to the danger of floods.

T F 50. A homeowners policy provides both property and liability insurance.

T F 51. The cost of home insurance is a relatively large item in the family budget.

T F 52. The chief difference between the standard and broad form of a homeowners policy is in the number of perils which are covered.

T F 53. The comprehensive form of a homeowners policy lists the perils which are covered for your property.

Posttest (Continued)

T F 54. While burning leaves in your backyard you accidentally set fire to your garage. Your insurance company will pay for damage even though you were directly responsible for the fire.

T F 55. While visiting your neighbor you accidentally upset a small glass-top table, breaking it into several pieces. If you have a homeowners policy, the insurance company will pay your neighbor for the damage which you did.

T F 56. A friend stops by to visit you and injures his knee in a fall on your property. Several days later you learn that his knee is infected. Your insurance company will pay your friend's medical bill even though he was responsible for his own injury.

T F 57. All youthful drivers pay about the same amount of premiums for their automobile insurance.

T F 58. State no-fault laws eliminate the right to sue for injuries incurred in auto accidents.

T 59. If, as a pedestrian, you are injured by a hit-and-run driver, your uninsured motorist coverage applies and your insurance company will pay for your injury.

T F 60. No-fault laws are a revision of, not a replacement of, the present automobile insurance system in the United States.

T F 61. Bodily injury liability applies to guests riding in your car.

T F 62. If you carry collision insurance and your car collides with another vehicle, your insurance company will pay for damages to your car even if you were at fault.

T F 63. Financial responsibility laws make automobile insurance compulsory.

T F 64. Massachusetts was the first state to pass a no-fault automobile insurance law.

T F 65. Damage to your car as a result of rolling over would be covered by property liability insurance.

T F 66. Repair of a frozen radiator would be covered by comprehensive automobile insurance.

ANSWER KEY FOR LEARNING ACTIVITIES

ANSWER KEY--ACTIVITY A

Section I	Section II
1. J	1. Q
2. K	2. D
3. N	3. E
4. I	4. P
5. A	5. A
6. L	6. N
7. F	7. C
8. E	8. B
9. O	9. O
10. G	10. G
11. M	11. F
12. Q	12. L
13. B	13. M
14. H	14. H
15. C	15. K
16. D	16. I
17. P	17. J
18. R	

ANSWER KEY--ACTIVITY B

CONCEPT OF RISK SHARING

Agree and Disagree

1. Agree
2. Agree
3. Disagree
4. Agree
5. Disagree
6. Disagree
7. Disagree
8. Disagree

The possible risks faced and ways to avoid financial loss is an individual item to be evaluated by the instructor.

ANSWER KEY--ACTIVITY C

AUTOMOBILE INSURANCE

1. False
2. False
3. True
4. True
5. False
6. True
7. False
8. Massachusetts
9. B
10. B
11. A. Bodily injury
    B. Property damage liability
    C. Medical payments
    D. Collision
    E. Comprehensive
    F. Uninsured motorist coverage
    G. Towing and road service
12. A. Property damage liability
    B. Medical payment
    C. Collision
    D. Comprehensive
    E. Uninsured motorist
13. A. Age
    B. Use of the car
    C. Location
    D. Driving record
    E. Claims you make
    F. Kind of car
14. Property damage and medical payments
15. A. Failure to report an accident
    B. Failure to pay preimum on time
    C. Arrest and conviction for DWI
    D. Lying on your application for insurance
    E. A high accident incidence rate

ANSWER KEY--ACTIVITY D

HOMEOWNERS INSURANCE

1. B
2. True
3. True
4. False
5. True
6. False
7. True
8. True
9. True
10. C
11. C
12. True
13. A. Standard
    B. Broad
    C. Comprehensive
    D. Comprehensive
    E. Standard
14. B
15. inventory photographs
16. B
17. A. Type of construction
    B. Efficiency of the fire department
    C. Type of coverage
    D. Geographic location
    E. Local water supply
18. D
19. B

ANSWER KEY--ACTIVITY E

LIFE INSURANCE

1. A
2. D
3. B
4. B
5. D
6. C
7. A
8. B
9. A
10. D
11. B
12. C
13. C
14. D

ANSWER KEY--ACTIVITY F

HEALTH AND ACCIDENT INSURANCE

Completion

1. Protection against hospital, surgical and other medical costs.

   Protection against the loss of income during an illness or injury

2. Hospital, surgical, and doctor's fees

Multiple Choice

3. C
4. A
5. D
6. C
7. B
8. B
9. C

Matching

10. B
11. E
12. A
13. D
14. F

PRETEST POSTTEST ANSWER KEY

1. H
2. I
3. J
4. G
5. E
6. A
7. B
8. C
9. F
10. D
11. C
12. B
13. D
14. C
15.. B
16. A
17. C
18. D
19. B
20. A
21. C
22. C
23. D
24. A
25. C
26. C
27. B
28. D
29. D
30. C
31. D
32. A
33. D
34. A
35. D
36. B
37. B
38. D
39. C
40. A
41. B
42. A
43. True
44. True
45. False
46. True
47. False
48. False
49. True
50. True
51. False
52. True
53. False
54. True
55. True
56. True
57. False
58. False
59. True
60. True
61. True
62. True
63. False
64. True
65. False
66. True